



**STATE OF NEVADA
GAMING CONTROL BOARD**

**INTERNAL AUDIT COMPLIANCE REPORTING
REQUIREMENTS**

July 1, 2004

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INTRODUCTION

“Internal Audit Compliance Reporting Requirements” are internal audit programs, checklists and guidelines developed to ensure that all gaming licensees who are required to provide for an internal audit function (i.e., Group I nonrestricted licensees) are performing a minimum amount and similar types of internal audit compliance procedures pursuant to the Minimum Internal Control Standards (MICS) and Regulation 6.090(15).

The Internal Audit Compliance Checklists are designed to be used in conjunction with the CPA MICS and 6A MICS Compliance Checklists and, therefore, do not separately address compliance with the MICS. There are internal audit checklists for all gaming revenue areas, areas subject to entertainment tax, Regulation 6A and for miscellaneous regulations.

The authority for the adoption of internal audit programs, checklists and guidelines can be found in the Internal Audit MICS (Version 5) effective October 1, 2003, the Currency Transaction Reporting MICS (Version 3) effective March 15, 1997 adopted pursuant to Regulations 6.090 and 6A.060, and Regulation 6.090(15) effective May 22, 2003.

A companion document, the Gaming Audit Procedures Manual (GAP Manual), useful in assisting casino accounting and auditing personnel in complying with the myriad of gaming laws and regulations currently in effect, has been issued in conjunction with the Internal Audit Compliance Reporting Requirements. Please see the Board’s website at <http://www.gaming.nv.gov/> for a copy of this document for more information.

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Objectives

Regulation 6.090(15) requires the licensee's internal auditor to perform observations, document examinations and inquiries of employees to determine compliance with applicable statutes, regulations, and minimum internal control standards. The Board publishes checklists, programs, guidelines and example report formats for use in satisfying this regulatory requirement. The primary objective of these checklists, programs and guidelines is to provide guidance on what is necessary to comply with Regulation 6.090(15). A secondary objective is to provide some consistency among internal audit departments and other individuals performing internal audit work by standardizing the document examination sample sizes and the scope of the work to be performed. Standardized requirements ensure that all internal audit departments are performing a minimum amount of work and are performing the same required procedures. Finally, by standardizing the questionnaires and providing example report formats, the Board is able to review any internal auditor's workpapers in a more efficient and time saving manner without having to adjust to the myriad of internal audit department and accounting firm styles.

Each section contains a walk-through program and a testing program. Although the checklists are not to be considered all-encompassing, they address regulations adopted through November 20, 2003 and Minimum Internal Control Standards that became effective on October 1, 2003. As the information changes due to the adoption of new regulations and/or statutes, internal auditors are expected to develop their own walk-through and/or testing procedures until updated versions of the checklists are distributed. Upon written notice by the Board Chairman or his designee, other procedures may be required. Additionally, these Guidelines are not intended to limit the internal auditor to the performance of only the above-specified procedures. If additional procedures are performed (e.g., expanded document testing), the results obtained should be included in the internal auditor's report pursuant to Regulation 6.090(15).

Requirement for Internal Audit Function

All nonrestricted Group I licensees, as defined in Regulation 6.010(5), are subject to these additional requirements and must provide for an internal audit function. Internal Audit Minimum Internal Control Standard #1 requires that a separate internal audit department, whose primary function is performing internal audit work and who is independent with respect to the departments subject to audit, be maintained by licensees who meet either of the following criteria:

1. A single licensee having gross gaming revenue in excess of \$10 million for the 12 months ended June 30; or
2. Two or more licensees with essentially common ownership and/or management having combined gross gaming revenue in excess of \$10 million for the 12 months ended June 30.

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When determining the combined gross gaming revenue, include only those nonrestricted locations classified as Group I licensees. For example, the following three licensees have essentially common ownership and management:

(Property 1) A Group I licensee with gross gaming revenues of \$5 million;

(Property 2) A Group I licensee with gross gaming revenues of \$4.5 million;

(Property 3) A Group II licensee with gross gaming revenues of \$2 million.

The Group I licensees (Properties 1 and 2), with total combined revenues of \$9.5 million, would not be required to maintain a separate internal audit department.

Pursuant to Internal Audit Minimum Internal Control Standard #2, for licensees who are not required to maintain a separate internal audit department, personnel who are independent with respect to the departments/procedures being examined perform internal audit work.

Additionally, all 6A licensees, as defined in Regulation 6A.010(9), must provide for an internal audit function and must perform the required Regulation 6A - Currency Transaction Reporting procedures. Generally, a 6A licensee has annual gross gaming revenues of over \$10 million and table games statistical win of over \$2 million. The Chairman may also designate 6A licensee status.

Separate Internal Audit Department

For those licensees required to maintain a separate internal audit department, this department's primary function is to perform internal audit work and is independent with respect to the departments subject to audit. Rather than using its own internal auditors, the internal audit department may elect to have the following individuals perform the internal audit function:

1. Nevada CPA (licensed or issued temporary permit) - The licensee may elect to retain a CPA, other than the firm engaged to audit or review the licensee's financial statements pursuant to Regulation 6.080, to perform the licensee's internal audit function.
2. Another Individual (non-employee) - The licensee may elect to retain a non-employee individual, firm or business that does not hold a current CPA license with the Nevada State Board of Accountancy (either through normal licensure or Nevada's temporary licensure permit process).
3. Same CPA Performs Both Regulation 6.090(15) Internal Audit Procedures and Regulation 6.090(9) CPA Procedures – Pursuant to NRS 463.157, if the stock of the licensee or the stock of the licensee's parent company is publicly traded, the same CPA engaged to provide an audit, review, or compilation of the financial statements cannot also perform internal audit procedures. For other licensees, if the CPA is engaged to

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perform the internal audit procedures and Regulation 6.090(9) procedures, the required observations of the hard, soft and currency acceptor drop/count procedures must be separately performed to satisfy both the Internal Audit MICS and the CPA procedures.

When the same CPA firm performs the procedures required by both Regulation 6.090(15) and Regulation 6.090(9), the individual(s) performing the Regulation 6.090(15) procedures cannot also perform the Regulation 6.090(9) drop and count procedures.

The licensee may also elect to utilize the MICS compliance work of the internal audit department to substitute for the CPA work required by Regulation 6.090(9). The licensee must submit written notification to the Board and the internal audit department must satisfy specific criteria as addressed in the CPA MICS Compliance Reporting Requirements, for such utilization to be permitted.

Qualifications of Personnel Performing Internal Function

The internal auditor (includes employees and non-employees) assigned to perform the required procedures pursuant to Regulation 6.090(15) must be independent with respect to the departments subject to audit and must have:

1. A high school diploma (or equivalent) and two years of post-secondary education which includes the successful completion of 6 courses in accounting, finance, hotel administration or in any other business-related field, or have a minimum of 6 months gaming accounting/auditing experience; or
2. A minimum of 6 months of accounting/auditing experience with a CPA firm, or
3. If neither #1 nor #2 is satisfied, supervision of the internal auditor is provided by an auditor who meets the above requirements.

In certain limited circumstances an internal auditor may not satisfy the above criteria. For good cause, upon written request by a licensee, the Chairman or his designee may waive any of the preceding requirements. In addition to the above education/experience requirements, individuals performing 6A internal audits must also be trained pursuant to 6A MICS #64.

Required Procedures

The internal auditor is required to:

1. Complete the applicable internal audit compliance walk-through procedures checklist by performing inquiries and observations during the period under review, and perform document compliance testing for dates within the period under review. A separate checklist must be completed for each gaming revenue center, for all areas subject to

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entertainment tax, cage and credit departments, branch offices, information technology department, Regulation 6A, and other miscellaneous regulations. These checklists are used to determine if the licensee's procedures in effect and the documents in use comply with the MICS and applicable regulations.

Walk-through checklists must be completed twice during each fiscal year (once during each six-month period, and not within thirty days of each other) for the slot and table games departments, in each fiscal quarter for 6A (performed on all three different shifts, rotated among departments/contacts), and every other year for branch offices (when applicable). Walk-through checklists for all other areas need only be completed annually.

2. Use the applicable internal audit compliance testing procedures checklist and perform substantive testing of each gaming revenue center, for areas subject to entertainment tax, cage and credit departments, every-other-year branch office reviews, information technology department, and tests for compliance with gaming regulations including Regulation 6A. These checklists are used to determine compliance with the MICS, regulations and statutes, and to determine if the licensee's recording and reporting procedures are adequate and accurate. There is a separate audit program that covers miscellaneous compliance walk-throughs and/or testing for other regulations, as well as license conditions, compliance committees and the Internet.

Testing procedures must be completed for each six-month period of the licensee's fiscal year for the slot and table games departments, for each fiscal quarter for Regulation 6A which may be done at any time of the year ("Departmental Testing Procedures" checklist only) and every other year for branch offices (when applicable). Testing procedures for all other areas need only be completed annually, including the Regulation 6A "Specialist Testing Procedures" checklist. Testing procedures includes the selection of at least one test date during each review period. Additionally, where multiple test dates are required to be selected during a year, the test dates are not to be within thirty days of each other.

The internal audit procedures required by Regulation 6.090(15) are separate from the accounting/audit procedures required by the Regulation 6.090 Minimum Internal Control Standards (MICS). At times an accounting/audit procedure required by the MICS is also a similar audit procedure required by Regulation 6.090(15). When internal audit performs similar audit procedures required by both Regulation 6.090(15) and the MICS, the individual(s) performing the MICS procedure cannot also perform the similar Regulation 6.090(15) procedure.

Photocopies of the checklists provided by the Board may be used. However, if your checklists are generated from the Board's electronic files, the format must be identical to that originally issued by the Board. A change from portrait to landscape is not considered a change in format. When modifying checklists due to regulatory changes or the addition of explanatory notes, the acceptable method will be to note the change following the question/procedure (which remains

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worded as issued by the Board). Although hard copies of the checklists are expected, the Board may grant approval for other formats.

Do not use checklists for areas that are inapplicable to your operation. For example, if you do not offer keno, discard the keno checklists; do not mount unnecessary checklists in your workpapers and mark them “not applicable”. If you are not a 6A licensee as defined in Regulation 6A.010(9), discard the Regulation 6A - Currency Transaction Reporting checklists.

Upon written request by a licensee, the Chairman or his designee may provide written approval to waive the performance of one or more areas of review for a specific year due to the occurrence of unusual circumstances, for good reason, or to extend report submission deadlines. Such approval is at the sole discretion of the Board. For new licensees that have been in operation for three months or less by the end of their business year, performance of these internal audit procedures is not required for the partial period. The Board classifies new licensees as Group I based on their first-year gross gaming revenue projections. Such initial classification should be used when determining whether recently licensed entities are required to maintain a separate internal audit department and/or comply with Regulation 6.090(15).

Performance and Completion

The internal auditor must perform and complete procedures in accordance with the following requirements:

1. All questions on each applicable checklist must be completed. Detailed explanations must be provided for all “no” responses and for exceptions noted during document testing.
2. Observations must be performed on an unannounced basis and, whenever possible, are to be performed without the employees being aware that their activities are being observed. For purposes of these procedures, “unannounced” means that no officers, directors, or employees are given advance information regarding the specific dates or times of such observations. Such observations may be performed from the surveillance room if practical. If advance arrangements for count room access are necessary between the licensee and the internal auditor, the arrangements indicating the method that will be used to allow the internal auditor access to the licensee’s count rooms should be made no later than 90 days after the start of the licensee’s business year. Documentation should be prepared by the internal auditor indicating the date the arrangements were made, the time period the arrangement is in effect, procedures to allow the internal auditor prompt access to the licensee’s count room and the method to ensure proper identification of the internal auditor. These arrangements should allow the internal auditor prompt access to the count rooms at any time without prior notification to any licensee personnel. Any subsequent updates to these arrangements (e.g., personnel updates) should be made on a regular basis (e.g., quarterly) to avoid alerting the gaming operation of an upcoming observation.

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If the drop teams are unaware of the internal audit drop observations and therefore the count observations would be unannounced, the hard count and soft count rooms may be entered simultaneously. Additionally, if the slot currency acceptor count begins immediately after the table games count in the same count room, by the same count team, and using the same equipment, the currency acceptor count observation can be conducted on the same day as the table games count observation as long as the internal auditor remains until monies are transferred to the vault/cage and accepted into accountability. When these conditions do not exist, counts must be observed on separate days.

Observations may be performed live using surveillance equipment. However, because the internal auditor must observe the count until the monies are transferred to the vault/cage and accepted into the vault/cage accountability, any change in viewing location (i.e., from the count room to the surveillance room) will necessitate reviewing the surveillance tapes for the time period during which the auditor was in transit.

3. The licensee's written system of internal control (the "System") must be compared by the internal auditor to the procedures being used in the licensee's casino operations. Regulation 6.090(13) requires the licensee to comply with its written system of internal control as it relates to compliance with the Minimum Internal Control Standards, variations from the Minimum Internal Control Standards approved pursuant to Regulation 6.090(8) or Regulation 6A.060(6), and Regulation 14 associated equipment approvals. Accordingly, in completing the final procedures of the "CPA MICS Compliance Checklists", the internal auditor must compare the written system of internal control against actual control procedures in effect as they relate to compliance with the MICS, MICS variations, and associated equipment approvals.
4. The internal auditor performs compliance testing of various documents referred to in the CPA MICS Compliance Checklists and the Internal Audit Compliance Testing Procedures Checklists to determine compliance with the MICS, regulations, and statutes and to determine if the licensee's recording and reporting procedures are adequate and accurate. The scope of such testing is indicated on the checklist where applicable. When multiple test dates are required to be selected, the test dates must not be within thirty days of each other. The checklists and/or back-up workpapers must include documentation of the original document examined by either explicitly identifying the form(s) (e.g., document # of slot jackpot form) examined or including a copy of the document(s) examined.
5. All exceptions resulting from internal audit work are investigated and resolved with the results of such being documented. Documentation should include the names of individuals with whom inquiries were made and how the investigation was conducted.
6. The results of internal audit work should be reported directly to the audit committee, if applicable, and to senior management/ownership personnel who are independent of the departments under review. Internal audit findings are properly communicated to the

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appropriate employees of the gaming operation. The results of internal audit work will not include the findings of any accounting/audit procedures performed by internal auditors, which are required to be performed by Regulation 6.090 Minimum Internal Control Standards.

7. When two or more persons perform the internal audit function as required by 6.090(15), a supervisory review is performed of the internal audit work by someone other than the individual performing the procedures being reviewed. The individual performing the review of the internal audit workpapers will initial or sign on the workpaper.
8. Follow-up inquiries, observations, and examinations are performed to verify that corrective action has been taken regarding all instances of noncompliance cited by internal audit, the Gaming Control Board and/or the independent accountant with the results of such being documented. The verification is performed within six months following the date of notification.

Report Submission Requirements

Two copies of the internal auditor's report identifying procedures required by the Board and any additional gaming-related compliance audit procedures not required by the Board (i.e., management request, Sarbanes-Oxley procedures), a reference to the applicable internal audit checklists completed, all instances of noncompliance noted (regardless of materiality), the review period, and senior management/ownership personnel responses to the noted noncompliance must be submitted to the Board. The testing procedures results for the test date(s) selected during the licensee's fiscal year must be included in the internal auditor's report by at least the second-half of the business year's report. However, it is encouraged that testing results for test dates selected during the first-half of the year are included in the internal auditor's report for the first six-month period of the licensee's fiscal year. Additionally, regarding noted noncompliance, the report must describe all instances of procedural noncompliance (regardless of materiality) with the regulations, MICS or approved variations, and all instances where the licensee's written system does not adequately reflect the licensee's actual control procedures in effect as they relate to compliance with the MICS, MICS variations, and associated equipment approvals. The internal auditor's first-half of the business year report is to be submitted to the Board within 120 days after the end of the first six months of the licensee's business year. The internal auditor's second-half of the business year report is to be submitted to the Board (also two copies) within 150 days after the end of the business year and separate from the CPA's Regulation 6.090(9) compliance report even though Regulation 6.090(15) and Regulation 13, Section 23 both allow the second-half internal audit report to be included in the CPA's Regulation 6.090(9) compliance report. All workpapers and reports must be completed and reviewed prior to the 120-day and 150-day deadline to submit such reports, so that workpapers supporting these reports will be complete and readily available for Board review immediately following the reporting deadlines.

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For each instance of noncompliance noted in the internal audit compliance reports, the following information must be included:

- a. The citation of the applicable Nevada Revised Statute, Nevada Gaming Commission and State Gaming Control Board Regulation, or Minimum Internal Control Standard for which the instance of noncompliance was noted.
- b. A narrative description of the noncompliance, including the number of exceptions and sample size tested.
- c. Management's responses to the noted instances of noncompliance.
- d. If the instance of noncompliance is determined to be immaterial, a broad management response acknowledging the instances of immaterial noncompliance is acceptable. The immaterial instances of noncompliance may be disclosed as a separate section of the report.
- e. Instances in which the written system of internal control does not reflect the actual control procedures in effect as they relate to compliance with the MICS, MICS variations, and associated equipment approvals.

Refer to the Example Report Formats section of this document for example reports that may be used and suggestions that should be used to comply with these reporting requirements.

All completed checklists and supplemental workpapers must be retained for five years. The completed checklists should not be forwarded as a part of the report submitted to the Board.

Please contact the Board's Audit Division in Reno or Las Vegas if you require clarification of the preceding guidelines.

Example Report Formats

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EXAMPLE REPORT FORMATS

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<u>REPORT</u>	<u>VERSION NUMBER</u>	<u>EFFECTIVE DATE</u>
Internal Audit Regulation 6.090(15) Report Format:		
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Example B - Prepared By Licensee's Internal Auditor (CPA Firm)	1	July 1, 2004
Example Findings Report	1	July 1, 2004
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INTERNAL AUDIT REGULATION 6.090(15) REPORT FORMAT

**EXAMPLE A - PREPARED BY LICENSEE'S INTERNAL AUDITOR (IN-HOUSE INTERNAL
AUDITOR OR OTHER INDIVIDUAL WHO IS NOT A CPA)**

We have performed the procedures enumerated below, which are required by Regulation 6.090(15) of the Nevada Gaming Commission and Nevada State Gaming Control Board in evaluating [name of licensee]'s compliance with the applicable statutes, regulations, and minimum internal control standards during the six-month period ended [date].

The procedures that we performed and our findings are as follows:

1. In accordance with the "Internal Audit Compliance Reporting Requirements" effective July 1, 2004, we completed the following: [List of "Internal Audit Compliance Checklists" completed]

We noted instances of noncompliance that have been included in _____ to this report [or "list findings here"] [or we noted no instances of noncompliance]. **(Refer to the "SUGGESTIONS FOR SUMMARIZING FINDINGS")**

2. [If applicable, list additional procedures performed at the request of the Audit Committee, if applicable, Senior Management/Owners of the Licensee or the Nevada State Gaming Control Board.]

We noted instances of noncompliance that have been included in _____ to this report [or "list findings here"] [or we noted no instances of noncompliance].

[Signature]

[Date]

INTERNAL AUDIT REGULATION 6.090(15) REPORT FORMAT

EXAMPLE B - PREPARED BY LICENSEE'S INTERNAL AUDITOR (CPA FIRM)

Independent Accountants' Report On Applying Agreed-Upon Procedures

To the Audit Committee (if applicable) and Senior Management/Owners of ABC Company:

We have performed the procedures enumerated below, which are required by Regulation 6.090(15) of the Nevada Gaming Commission and Nevada State Gaming Control Board (collectively the "Regulators"). These agreed-upon procedures are intended solely to assist ABC Company's management and the Regulators in evaluating ABC Company's compliance with the applicable statutes, regulations, and minimum internal control standards during the six-month period ended [date]. ABC's Company's management is responsible for ABC Company's compliance with the applicable statutes, regulations, and minimum internal control standards and published guidelines issued by the Regulators.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. In accordance with the "Internal Audit Compliance Reporting Requirements" effective July 1, 2004, we completed the following: [List of "Internal Audit Compliance Checklists" completed]

We noted instances of noncompliance that have been included in _____ to this report [or "list findings here"] [or we noted no instances of noncompliance]. **(Refer to the "SUGGESTIONS FOR SUMMARIZING FINDINGS")**

2. [If applicable, list additional procedures performed at the request of the Audit Committee, if applicable, Senior Management/Owners of the Licensee or the Nevada State Gaming Control Board.]

We noted instances of noncompliance that have been included in _____ to this report [or "list findings here"] [or we noted no instances of noncompliance].

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on management's compliance with the applicable statutes, regulations, and minimum internal control standards and published guidelines issued by the Regulators. Accordingly, we do not express such an opinion. Had we been engaged to perform additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Audit Committee (if applicable) and Senior Management/Owners of ABC Company and the Regulators and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

[Signature]

[Date]

EXAMPLE FINDINGS REPORT

Fun Time Casino

Instances of Noncompliance Reported to Management by Internal Audit for the Six-Month Period Ended [Date]

Slots

Slot MICS #48 states: Drop boxes, when empty, are shown to another member of the count team, to another person who is observing the count, or to recorded or live surveillance, provided the count is monitored in its entirety by someone independent of the count.

During the observation of the currency acceptor count process at Fun Time Casino on September X, 200X, we noted that on two occasions, one count team member showed the box to another count team member but did not receive acknowledgement that the box was empty. Additionally, inside of the box was not clearly visible to the surveillance cameras.

Management Response: All count personnel have been reminded via a memorandum dated January X, 200X that it is required to have another team member visually verify the currency acceptor drop box is empty. Additionally, the soft count team members have been instructed to be very deliberate when showing the empty box and to clearly acknowledge that the box has been completely emptied.

Table Games

Table Games MICS #13 states: The issue slip includes the same marker number as the original, the table number, date and time of issuance, and amount of credit issued. The issue slip also includes the signature of the individual issuing the credit, and the signature or initials of the dealer at the applicable table, unless this information is included on another document.

During our detail testing, an examination of an issue slip (number XXXX) prepared on December 5, 200X, revealed that there was no time of issuance indicated on the slip.

This exception appears to be isolated. Thirty slips were reviewed for five test dates (10/16/0X, 10/23/0X, 11/07/0X, 11/29/0X and 12/5/0X) and only 1 out of the 30 slips prepared on December 5, 200X did not indicate the time of issuance.

Management Response: All table games personnel have been reminded via memorandum dated January X, 200X that the marker issue slip must include the date and time of issuance.

Keno

No exceptions were noted.

Cage and Credit

Cage and Credit MICS #57 states: An individual independent of the cage, credit, and collection functions performs the following review procedures at least three times per year:

- a. Select a sample of credit accounts and ascertain compliance with credit limits and other established credit issuance procedures pursuant to Cage and Credit MICS #1 and Regulation 6.120(2).

A discussion with the accounting supervisor on September X, 200X disclosed that the aforementioned procedure has not been performed during the year 200X. This is a recurring violation noted in the internal audit report for the period ended June 30, 200X.

Management Response: The accounting supervisor has completed this procedure for the year ended December 31, 200X as of January X, 200X. The controller has reviewed the procedures performed to ensure the procedures were properly performed.

Miscellaneous Regulations

Regulation 3.100 Employee Report

Regulation 3.100 requires that the licensee submit a semi-annual report identifying every individual who is actively engaged in the administration or supervision of the operation as described by the regulation.

A discussion with the controller on September X, 200X disclosed that a semi-annual report was inadvertently not submitted for the period January 1, 200X through June 30, 200X.

Management Response: The controller has submitted a Regulation 3.100 employee report for the period January 1, 200X through June 30, 200X to the Board on December X, 200X.

Regulation 8.130 Transaction Reports

Regulation 8.130 requires that all loans and leases to the licensee be reported to the Board thirty days after the end of the calendar quarter in which the transaction was consummated.

No exceptions were noted.

SUGGESTIONS FOR SUMMARIZING FINDINGS

1. A separate report is prepared for each licensee.
2. Subdivide the findings/exception portion of the letter by type of audit (i.e., slots, keno, credit, currency transaction reporting, etc.). Under each audit section list the exceptions noted from that audit. If no exceptions are noted, indicate this under the applicable audit heading. There should be an audit heading for each audit performed during the period covered by the letter, whether or not exceptions are noted.
3. Clearly state the basis for the exception (i.e., MICS # or regulation citation). Do **not** indicate the checklist procedure number as the basis for the exception.
4. Indicate how the exception was discovered (i.e., interview with employee on (MM/DD/YY), observation on (MM/DD/YY), detail testing on (MM/DD/YY), etc.)
5. If the exception was discovered through observations of an employee performing his or her duties, indicate if the exception appears to be isolated or whether it is part of the employee's routine procedures.
6. If the exception was discovered through detail testing, indicate the sample size examined (i.e., number of days reviewed, number of forms reviewed, etc.) and the time period from which the sample was selected (i.e., second half of 200X).
7. After each exception indicate the applicable management response. The management's response can be on a separate document as long as it is clearly referenced to the applicable exception. This response should indicate specifically what procedures management has taken to correct the problem and the date such changes became effective.
8. If Internal Audit or the CPA previously cited the same exception within the current reporting period, a reference should be made to the date of the audit in which the exception was originally noted and whether Internal Audit or the CPA discovered it. The reasons for the repeated noncompliance should also be noted (i.e., management implemented change but employees subsequently reverted to incorrect procedures, etc.).
9. The exceptions noted (or lack of exceptions) may be in table form as long as the table contains all necessary information in the format indicated above.

Checklists